

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Charter Township of Larkin	County Midland
Fiscal Year End December 31, 2005	Opinion Date February 23, 2006	Date Audit Report Submitted to State June 14, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES  
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Burnside & Lang, P.C.		Telephone Number 989-835-7721		
Street Address 5915 Eastman Ave		City Midland	State MI	Zip 48640
Authorizing CPA Signature 		Printed Name Mark R. Freed		License Number 1101012221

**CHARTER TOWNSHIP OF LARKIN**  
**MIDLAND COUNTY, MICHIGAN**  
 44444444444444444444444444444444  
**FINANCIAL STATEMENTS**  
 For The Year Ended December 31, 2005

CHARTER TOWNSHIP OF LARKIN

BOARD OF TRUSTEES

Leonard Servinski	Supervisor
Kathy Moe	Treasurer
Lisa Johnson	Clerk
Scott Atton	Trustee
Karen Hitchcock	Trustee
James Snider	Trustee
Donna Harrington	Trustee

POPULATION-2000  
4514

STATE EQUALIZED VALUATION-2005  
\$217,959,050

STATE TAXABLE VALUE-2005  
\$199,287,410

**CHARTER TOWNSHIP OF LARKIN  
MIDLAND COUNTY, MICHIGAN  
AUDITED FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

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**Independent Auditors' Report**

Members of The Township  
Board of Trustees  
Charter Township of Larkin  
Midland County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Charter Township of Larkin, Midland County, Michigan, as of and for the year ended December 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township Board. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Charter Township of Larkin, Midland County, Michigan, as of December 31, 2005, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 2 through 4 and 21, are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Burnside & Lang, P.C.*

Midland, Michigan  
February 23, 2006

**CHARTER TOWNSHIP OF LARKIN  
MIDLAND COUNTY, MICHIGAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended December 31, 2005**

**Using This Annual Report**

This annual report of the Charter Township of Larkin (the "Township") consists of a series of financial statements. The Government-Wide Statement of Net Assets and the Government-Wide Statement of Activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. The Governmental Fund financial statements of the Township tell how these services were financed in the short-term, as well as what remains for future spending. The Governmental Fund financial statements of the Township also report the Township's operations in more detail than the Government-Wide Statements of Net Assets and the Government-Wide Statements of Activities.

**The Township As A Whole**

The net assets of the Township declined \$24,491 or .5% from the prior year, going from \$5469.7 million to \$5494.2 million. In a condensed format, the table below shows a comparison of the net assets (in thousands of dollars) for the Township as of December 31, 2005 verses December 31, 2004.

	<b>2005</b>	<b>2004</b>
Current Assets	\$ 1,955.8	\$ 1,831.6
Noncurrent Assets	8,368.3	8,652.4
Total Assets	10,324.1	10,484.0
Liabilities	(4,829.9)	(5,014.3)
Net Assets		
Invested in Capital Assets	1,854.9	1,671.7
Restricted	3,409.2	3,621.2
Unrestricted	230.1	176.8
Total Net Assets	\$ 5,494.2	\$ 5,469.7

**CHARTER TOWNSHIP OF LARKIN  
MIDLAND COUNTY, MICHIGAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended December 31, 2005**

**The Township As A Whole (Continued)**

Unrestricted net assets, the part of net assets that can be used to finance day to day operations, decreased by \$53,374. The current level of unrestricted net assets for the Township stands at \$230,165, or about 26.6% of operating expenses. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating. The following table shows the changes of the net assets (in thousands of dollars) as of the current date to the prior year:

	<b>2005</b>	<b>2004</b>
<b>Program Revenues</b>		
Charges for services	\$ 327.8	\$ 298.0
Grants and contributions	46.4	6.9
<b>General Revenues</b>		
Property taxes	190.6	180.5
City of Midland agreement	28.5	24.2
State revenue sharing	309.7	295.3
Interest earnings	183.3	177.3
Miscellaneous	38.8	32.5
Total Revenues	<u>1,125.1</u>	<u>1,014.7</u>
<b>Program Expenses</b>		
General government	265.3	279.3
Public safety	106.7	104.7
Public works	407.0	487.1
Community development	10.2	29.3
Recreation and culture	76.7	69.6
Interest and fiscal charges	234.7	250.0
Total Expenses	<u>1,100.6</u>	<u>1,220.0</u>
Change in Net Assets	<u>\$ 24.5</u>	<u>\$ (205.3)</u>

**CHARTER TOWNSHIP OF LARKIN  
MIDLAND COUNTY, MICHIGAN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended December 31, 2005**

**The Township As A Whole (Continued)**

The Township's net assets continue to remain healthy despite total revenues increasing 10.99% and expenses decreasing 2.9% over the previous year. As a result, net assets increased by \$24,491 this year compared to \$205,309 decrease last year.

**General Fund Budgetary Highlights**

Over the course of the year the Township Board amended the general fund budget to take into account events during the year. Total expenditures in the budget were increased \$92,584 to \$746,894. The Township Board major project for 2005 consisted of the Jefferson road project between the Township and Midland County Road Commission. The township board also received three local grants totaling \$46,450 for the Township Park. These funds were used to purchase playground equipment and also do some improvements to the grounds.

**Contacting the Township's Management**

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Clerk's office.



**Exhibit 2**

**CHARTER TOWNSHIP OF LARKIN**  
**GOVERNMENT-WIDE STATEMENT OF NET ASSETS**  
**December 31, 2005**

**ASSETS**

Cash and cash equivalents	\$ 1,112,080
Taxes receivable - current	4,899
Due from tax fund	760,888
Prepaid survey expenses	62,898
Other receivables	15,094
Assessments receivable - long-term	2,306,245
Capital assets:	
Land	77,600
Buildings and improvements, net	491,920
Township equipment, net	67,472
Fire department equipment, net	119,697
Fire department vehicles, net	409,910
Water system, net	4,895,457
Total capital assets	<u>6,062,056</u>
<b>Total assets</b>	<b><u>10,324,160</u></b>

**LIABILITIES**

Accounts payable	62,152
Accrued expenses	5,193
Deferred revenue	533,209
Due to other governmental units	20,013
Deposits and other liabilities	2,200
Long-term liabilities:	
Portion due or payable within one year:	
Bonds and contracts payable	225,864
Capital lease	39,901
Portion due or payable after one year:	
Bonds and contracts payable	3,896,297
Capital lease	45,097
<b>Total liabilities</b>	<b><u>4,829,926</u></b>

**NET ASSETS**

Invested in capital assets, net of related debt	1,854,897
Restricted for:	
Debt service	3,409,172
Unrestricted	230,165
<b>Total net assets</b>	<b><u>\$ 5,494,234</u></b>

The accompanying notes are an integral part of these financial statements.

**CHARTER TOWNSHIP OF LARKIN**  
**GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**  
**Year Ended December 31, 2005**

Activities:	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
General Government:					
Township board	\$ 13,575	\$ -	\$ -	\$ -	\$ (13,575)
Supervisor	13,071	-	-	-	(13,071)
Treasurer	32,659	5,998	-	-	(26,661)
Assessing	29,489	-	-	-	(29,489)
Clerk	26,031	-	-	-	(26,031)
Elections	115	-	-	-	(115)
Buildings and grounds	73,014	10,350	-	-	(62,664)
All other general government	77,378	-	46,450	-	(30,928)
Fire protection	87,288	-	-	-	(87,288)
Building inspection and regulation activities	19,424	28,605	-	-	9,181
Roads and drains	80,003	-	-	-	(80,003)
Water system	114,275	50,662	-	-	(63,613)
Sanitation, solid waste	212,717	232,200	-	-	19,483
Planning and zoning	10,153	-	-	-	(10,153)
Parks and recreation	21,234	-	-	-	(21,234)
Library	55,420	-	-	-	(55,420)
Interest and fiscal charges	234,752	-	-	-	(234,752)
<b>Total governmental activities</b>	<b>\$ 1,100,598</b>	<b>\$ 327,815</b>	<b>\$ 46,450</b>	<b>\$ -</b>	<b>(726,333)</b>
General revenues:					
Property taxes, levied for general purposes					190,562
Property tax agreement with the City of Midland					28,472
State revenue sharing					309,661
Interest earnings					183,348
Miscellaneous					38,781
Total general revenues					750,824
Change in net assets					24,491
Net assets-beginning					5,469,743
<b>Net assets-ending</b>					<b>\$ 5,494,234</b>

The accompanying notes are an integral part of these financial statements.

**CHARTER TOWNSHIP OF LARKIN**  
**GOVERNMENTAL FUND BALANCE SHEET**  
**December 31, 2005**

	<b>General Fund</b>	<b>Sanitation Fund</b>	<b>Water District 1 Debt Service Fund</b>	<b>Water District 2 Debt Service Fund</b>	<b>Total</b>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 199,922	\$ 105,230	\$ 123,197	\$ 683,731	\$ 1,112,080
Taxes receivable, net	4,899	-	-	-	4,899
Assessment receivable, net	-	-	170,280	2,135,965	2,306,245
Due from other funds	270,433	209,250	21,673	259,532	760,888
Prepaid survey expenses	62,898	-	-	-	62,898
Other receivables	300	-	4,931	9,863	15,094
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total assets</b>	<b><u>\$ 538,452</u></b>	<b><u>\$ 314,480</u></b>	<b><u>\$ 320,081</u></b>	<b><u>\$ 3,089,091</u></b>	<b><u>\$ 4,262,104</u></b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 37,948	\$ 24,204	\$ -	\$ -	\$ 62,152
Accrued expenses	5,193	-	-	-	5,193
Due to other governmental units	20,013	-	-	-	20,013
Deposits and other liabilities	2,200	-	-	-	2,200
Deferred revenue	298,984	234,225	-	-	533,209
Total liabilities	<u>364,338</u>	<u>258,429</u>	<u>-</u>	<u>-</u>	<u>622,767</u>
Fund balances:					
Unreserved	<u>174,114</u>	<u>56,051</u>	<u>320,081</u>	<u>3,089,091</u>	<u>3,639,337</u>
Total fund balances	<u>174,114</u>	<u>56,051</u>	<u>320,081</u>	<u>3,089,091</u>	<u>3,639,337</u>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total liabilities and fund balances</b>	<b><u>\$ 538,452</u></b>	<b><u>\$ 314,480</u></b>	<b><u>\$ 320,081</u></b>	<b><u>\$ 3,089,091</u></b>	<b><u>\$ 4,262,104</u></b>

The accompanying notes are an integral part of these financial statements.

**CHARTER TOWNSHIP OF LARKIN**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET ASSETS**  
**December 31, 2005**

Total fund balances for governmental funds (Exhibit 4)	\$	3,639,337
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Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$	77,600	
Buildings and improvements, net of \$159,976 accumulated depreciation		491,920	
Township equipment, net of \$80,256 accumulated depreciation		67,472	
Fire department equipment, net of \$104,812 accumulated depreciation		119,697	
Fire department vehicles, net of \$244,170 accumulated depreciation		409,910	
Water system, net of \$477,047 accumulated depreciation		<u>4,895,457</u>	
Total capital assets			6,062,056

Long-term liabilities applicable to the Township's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net assets.

Balances at December 31, 2005 are:

Midland County Water Supply System Bonds, Series 1997	\$	(340,000)	
Midland County Water Supply System Bonds, Series 1999		(3,610,000)	
Installment Purchase Contract, Township Office		(172,162)	
Capital Lease, Fire Truck		<u>(84,997)</u>	
			<u>(4,207,159)</u>

Total net assets of governmental activities (Exhibit 2)	\$	<u><u>5,494,234</u></u>
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**CHARTER TOWNSHIP OF LARKIN**  
**STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES**  
**For the Year Ended December 31, 2005**

	<b>General Fund</b>	<b>Sanitation Fund</b>	<b>Water District 1 Debt Service Fund</b>	<b>Water District 2 Debt Service Fund</b>	<b>Total</b>
<b>REVENUES</b>					
Property taxes	\$ 225,032	\$ -	\$ -	\$ -	\$ 225,032
Licenses and permits	28,605	-	-	-	28,605
State aid	309,661	-	-	-	309,661
Charges for services	9,439	-	13,741	27,482	50,662
Interest and dividends	5,699	1,477	11,432	164,740	183,348
Rents and royalties	10,350	-	-	-	10,350
Special assessments	-	232,200	-	-	232,200
Donations and contributions	46,450	-	-	-	46,450
Miscellaneous	38,488	203	90	-	38,781
<b>Total revenues</b>	<b>673,724</b>	<b>233,880</b>	<b>25,263</b>	<b>192,222</b>	<b>1,125,089</b>
<b>EXPENDITURES</b>					
General government	241,101	-	-	-	241,101
Public safety	64,408	-	-	-	64,408
Public works	80,003	212,717	250	6,575	299,545
Community development	10,153	-	-	-	10,153
Recreation and culture	73,874	-	-	-	73,874
Capital outlay	94,172	-	-	-	94,172
Debt service	77,802	-	59,146	363,569	500,517
<b>Total expenditures</b>	<b>641,513</b>	<b>212,717</b>	<b>59,396</b>	<b>370,144</b>	<b>1,283,770</b>
<b>Net change in fund balances</b>	<b>32,211</b>	<b>21,163</b>	<b>(34,133)</b>	<b>(177,922)</b>	<b>(158,681)</b>
Fund balances-beginning	141,903	34,888	354,214	3,267,013	3,798,018
<b>Fund balances-ending</b>	<b>\$ 174,114</b>	<b>\$ 56,051</b>	<b>\$ 320,081</b>	<b>\$ 3,089,091</b>	<b>\$ 3,639,337</b>

The accompanying notes are an integral part of these financial statements.

**CHARTER TOWNSHIP OF LARKIN  
RECONCILIATION OF THE STATEMENT OF REVENUE,  
EXPENDITURES, AND CHANGES IN FUND BALANCES  
OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES  
December 31, 2005**

Net change in fund balances - total governmental funds (Exhibit 5) \$ (158,681)

The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$176,765) exceeded capital outlay (\$94,172) in the current period. (82,593)

Bond proceeds and capital leases are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Repayments:

Midland County Water Supply System Bonds, Series 1997	40,000	
Midland County Water Supply System Bonds, Series 1999	165,000	
Installment Purchase Contract, Township Office	20,864	
Capital Lease, Fire Truck	39,901	
	265,765	265,765

Change in net assets of governmental activities (Exhibit 3) \$ 24,491

The accompanying notes are an integral part of these financial statements.

**CHARTER TOWNSHIP OF LARKIN**  
**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES**  
**CURRENT TAX FUND**  
**December 31, 2005**

**ASSETS**

Cash and cash equivalents	\$ 1,651,787
Taxes receivable	<u>2,264,614</u>
Total assets	<u>3,916,401</u>

**LIABILITIES**

Due to other funds	760,888
Due to other governmental units	<u>3,155,513</u>
Total liabilities	<u>3,916,401</u>

**NET ASSETS**

\$	<u><u>-</u></u>
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The accompanying notes are an integral part of these financial statements.

**CHARTER TOWNSHIP OF LARKIN  
MIDLAND COUNTY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2005**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Township conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township:

**A. Reporting Entity**

The Township is governed by an elected seven-member board. The accompanying financial statements present the Township operations for which the government is considered to be financially accountable. The Township has no component units and is not responsible for any jointly governed organizations.

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.



**CHARTER TOWNSHIP OF LARKIN  
MIDLAND COUNTY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2005**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation  
(Continued)**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgements are recorded only when payment is due.

The Township property tax is levied each December 1<sup>st</sup> on the taxable valuation of property (as defined by State statutes) located in the Township as of the preceding December 31<sup>st</sup>. Although the Township 2005 ad valorem tax is levied and collectible on December 1, 2005, it is the Township's policy to recognize revenue from the current tax levy in the subsequent year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period.

The 2004 taxable valuation of the Township totaled \$190.5 million, on which ad valorem taxes levied consisted of 1.000 mills for Township operating purposes. This amount is recognized in the General Fund as current tax revenue.

The government reports the following major funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Sanitation Fund accounts for providing garbage and rubbish collection financed by an annual special assessment.

The Water District #1 and #2 Debt Service Funds account for the resources accumulated and payments made for principal and interest on general long-term debt associated with the construction of water systems within the Township.

**CHARTER TOWNSHIP OF LARKIN  
MIDLAND COUNTY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2005**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)**

Additionally, the government reports the following fund type:

The Current Tax Collection Fund is used to account for resources held by the Township in a purely custodial capacity. Money in this fund is from current tax and special assessment collections. Timely distribution to the appropriate fund and local unit must be made in accordance with Section 43 of the General Property Tax Act.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

**D. Assets, Liabilities, and Net Assets**

Bank Deposits and Investments—Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables—In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds.”

All trade and property tax receivables are shown net of allowance for uncollectible amounts. Property taxes are levied on each December 1<sup>st</sup> on the taxable valuation of property as of the preceding December 31<sup>st</sup>. Taxes are considered delinquent on March 1<sup>st</sup> of the following year, at which time penalties and interest are assessed.

Prepaid Items—Certain payments to vendors reflect cost applicable to future years and are recorded as prepaid items in the government-wide and fund statements.

Capital Assets—Capital assets, which include property, plant, and equipment are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**CHARTER TOWNSHIP OF LARKIN  
MIDLAND COUNTY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2005**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Assets, Liabilities, and Net Assets (Continued)**

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	25 to 40 years
Building improvements	25 to 40 years
Water systems	50 years
Fire apparatus	25 years
Fire equipment	5 to 25 years
Office equipment	5 to 25 years
Computer equipment	5 to 10 years

Long-Term Obligations—In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity—In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgetary Information—Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the debt service funds. All annual appropriations lapse at fiscal year end. The budget document presents information by fund, function, department or activity, and line items. The legal level of budgetary control adopted by the governing body is the department or activity level.

Excess of Expenditures Over Appropriations in Budgeted Funds—During the year, the Township incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

<u>Budgeted Item</u>	<b>Budget Appropriation</b>	<b>Actual Expenditure</b>
General Fund – Park & Recreation	\$17,313	\$18,454
General Fund – Capital Outlay	\$64,963	\$65,912

**CHARTER TOWNSHIP OF LARKIN  
MIDLAND COUNTY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2005**

**NOTE 3. DEPOSITS AND INVESTMENTS**

Michigan Compiled Laws, Section 129.91, authorizes the Township to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Township is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers acceptances of United States banks' commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Township Board has designated two banks for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and certificates of deposit, but not the remainder of State statutory as listed above.

The Township's deposits and investment policy are in accordance with statutory authority.

At year-end, the Township's deposits and investments were reported in the basic financial statements in the following categories:

	<b>Governmental Activities</b>	<b>Fiduciary Funds</b>	<b>Total</b>
Cash and cash equivalents	\$ 1,112,080	\$ 1,651,787	\$ 2,763,867

The breakdown between deposits and investments is as follows:

Bank Deposits (checking and savings, certificate of deposit)	<u>\$ 2,763,867</u>
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The bank balance of the government deposits is \$2,763,867 of which \$200,000 is covered by federal deposit insurance.

**Investment and Deposit Risk**

**Custodial Credit Risk – Deposits.** Custodial credit risk is the risk that in the event of a bank failure, the Township's deposits may not be returned. The government does not have a deposit policy for custodial credit risk. At year end, the Township had \$2,563,867 of bank deposits (certificates of deposit, checking and savings accounts) that were potentially uninsured and uncollateralized.

**Custodial Credit Risk – Investments.** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, that the Charter Township of Larkin and will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At year end, the Township had no investments.

**CHARTER TOWNSHIP OF LARKIN  
MIDLAND COUNTY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2005**

**NOTE 3. DEPOSITS AND INVESTMENTS (continued)**

**Interest Rate Risk.** Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. State law limits the allowable investments and the maturities of some of the allowable investments. The Township's current investments have no potential interest rate risk.

**NOTE 4. CAPITAL ASSETS**

Capital asset activity of the Township for the current year was as follows:

<b>Governmental Activities</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital Assets Not Being Depreciated				
Land	\$ 77,600	\$ -	\$ -	\$ 77,600
Capital Assets Being Depreciated				
Buildings and improvements	575,566	76,330	-	651,896
Township equipment	140,387	7,341	-	147,728
Fire department equipment	214,244	10,500	235	224,509
Fire department vehicles	654,080	-	-	654,080
Water system	5,537,504	-	-	5,372,504
Subtotal	6,956,781	94,171	235	7,050,717
Less Accumulated Depreciation for				
Buildings and improvements	142,627	17,349	-	159,976
Township equipment	69,261	10,995	-	80,256
Fire department equipment	90,241	14,571	-	104,812
Fire department vehicles	218,006	26,164	-	244,170
Water system	369,596	107,451	-	477,047
Subtotal	889,731	176,530	235	1,066,261
Net Capital Assets Being Depreciated	6,067,050	( 82,359)	235	5,984,456
Governmental Activities Capital Assets—Net of Depreciation	\$ 6,144,650	\$ ( 82,359)	\$ 235	\$ 6,062,056

Depreciation expense was charged to activities of the Township as follows:

General Government	\$ 24,231
Fire Protection	42,304
Water System	107,450
Parks and Recreation	2,780
	<u>\$ 176,765</u>

**CHARTER TOWNSHIP OF LARKIN  
MIDLAND COUNTY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2005**

**NOTE 5. INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS**

The amount of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	\$ 270,433	Tax Collection	\$ 760,888
Sanitation	209,250		-
Water District #1	21,673		-
Water District #2	259,532		-
Total	<u>\$ 760,888</u>		<u>\$ 760,888</u>

**NOTE 6. LEASES**

Capital Lease – The Township has entered into a lease agreement as lessee for financing the purchase of a fire vehicle. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the net present value of the future minimum lease payments as of the inception date. The future minimum lease obligations and the net present value is as follows:

<u>Year Ended December 31,</u>	
2006	\$ 45,246
2007	<u>45,245</u>
Total Minimum Lease Payments	90,491
Less: Amount Representing Interest	<u>5,494</u>
	<u>\$ 84,997</u>

**CHARTER TOWNSHIP OF LARKIN  
MIDLAND COUNTY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2005**

**NOTE 7. LONG-TERM DEBT**

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties that directly benefitted from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Bond and contractual obligation activity can be summarized as follows:

	<u>Interest Rate</u>	<u>Balance 01-01-05</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 12-31-05</u>
2001 Township Office, Installment Purchase Contract; due 6/1/2007	5.34%	\$ 193,026	\$ -	\$ 20,864	\$ 172,162
1999 Water Supply System Bonds; due 8/1/2016	4.0% to 7.0%	3,775,000	-	165,000	3,610,000
1997 Water Supply System Bonds; due 8/1/2016	4.0% to 5.25%	<u>380,000</u>	<u>-</u>	<u>40,000</u>	<u>340,000</u>
		<u>\$ 4,348,026</u>	<u>\$ -</u>	<u>\$ 225,864</u>	<u>\$ 4,122,162</u>

Scheduled principal maturities of long-term debt for years subsequent to December 31, 2005 are as follows:

<u>Year Ending December 31,</u>	
2006	\$ 225,864
2007	357,532
2008	245,000
2009	255,000
2010	260,000
Thereafter	<u>2,778,766</u>
	<u>\$ 4,122,162</u>

**CHARTER TOWNSHIP OF LARKIN  
MIDLAND COUNTY, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2005**

**NOTE 8. RISK MANAGEMENT**

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers compensation). The Township has purchased commercial insurance for these types of claims. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

**NOTE 9. PENSION PLAN**

The Township provides pension benefits to members of the Township Board of Trustees, constables, building inspector, fire chief and custodian through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by Township ordinance 187, the Township contributes 8.5% of employee gross earnings and the employee contributes 8.5% of earnings.

In accordance with these requirements, the Township contributed \$9,809 during the current year and employees contributed \$11,650. The Township also incurred participant fees totaling \$1,352 which was charged to pension expenditures.

**NOTE 10. URBAN COOPERATION ACT AGREEMENT**

The Township has agreements with the City of Midland under the Urban Cooperation Act, which require these two units of government to share property taxes collected on real property annexed by the City of Midland and formerly within Larkin Township. Under the agreements, the City of Midland is required to pay Larkin Township a portion of ad valorem property taxes levied on the related property in amounts ranging from 1.0 to 2.0 mills of the state taxable valuations as of the date specified in the agreements and indexed by the rate of inflation for succeeding years. These agreements begin to expire on December 31, 2009. The Township received tax revenue totaling \$28,471 from these agreements during 2005.

**NOTE 11. PREPAID EXPENSE/CONTINGENCY**

The Township has prepaid expenses of \$62,898 for survey cost they incurred for a potential new water district. Upon approval of Water District #3 these prepaid expenses will be reimbursed to the township, from the bond proceeds or assessments collected by the water district. If the new water district is not approved by the property owners, the Township will incur these survey expenses in fiscal year 2006.



**CHARTER TOWNSHIP OF LARKIN**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**For the Year Ended December 31, 2005**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>REVENUES</b>				
Property taxes and related fees	\$ 221,500	\$ 221,500	\$ 225,032	\$ 3,532
Licenses and permits	21,000	21,000	28,605	7,605
State aid	311,346	311,346	309,661	(1,685)
Charges for services	3,113	3,113	9,439	6,326
Interest and dividends	3,500	3,500	5,699	2,199
Rents and royalties	10,000	10,000	10,350	350
Donations and contributions	-	-	46,450	46,450
Miscellaneous	26,000	26,000	38,488	12,488
<b>Total revenues</b>	<b>596,459</b>	<b>596,459</b>	<b>673,724</b>	<b>77,265</b>
<b>EXPENDITURES</b>				
General Government:				
Towship board	14,445	14,197	13,575	622
Supervisor	12,936	13,184	13,071	113
Treasurer	32,303	32,303	32,023	280
Assessing	28,136	29,731	29,489	242
Clerk	26,190	26,607	26,031	576
Elections	500	234	115	119
Buildings and grounds	98,575	67,779	66,538	1,241
All other general government	67,234	65,319	60,259	5,060
Public Safety:				
Fire protection	92,822	47,576	44,984	2,592
Building inspection and regulation activities	22,349	20,339	19,424	915
Public Works:				
Roads and drains	69,819	174,719	80,003	94,716
Community Development:				
Planning and zoning	19,714	10,749	10,153	596
Recreation and Culture:				
Parks and recreation	28,436	17,713	18,454	(741)
Library	55,000	55,420	55,420	-
Capital Outlay:				
General government	6,000	28,260	28,260	-
Fire protection	10,000	10,000	10,500	(500)
Parks and recreation		54,963	55,412	(449)
Debt Service:				
Principal payments		60,766	60,766	-
Interest payments		17,036	17,036	-
<b>Total expenditures</b>	<b>584,459</b>	<b>746,894</b>	<b>641,513</b>	<b>105,381</b>
<b>Deficiency of revenues over expenditures</b>	<b>12,000</b>	<b>(150,435)</b>	<b>32,211</b>	<b>182,646</b>
<b>Net change in fund balances</b>	<b>12,000</b>	<b>(150,435)</b>	<b>32,211</b>	<b>182,646</b>
Fund balances-beginning	141,903	141,903	141,903	-
<b>Fund balances-ending</b>	<b>\$ 153,903</b>	<b>\$ (8,532)</b>	<b>\$ 174,114</b>	<b>\$ 182,646</b>

February 23, 2006

Members of the Township  
Board of Trustees  
Charter Township of Larkin  
Midland County, Michigan

Dear Board Members:

In planning and performing our audit of the financial statements of Charter Township of Larkin, for the year ended December 31, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Township's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily disclose all matters that might be reportable condition. In addition, because of inherent limitations in internal control, errors or fraud may occur and not be detected by such controls.

### **REPORTABLE CONDITIONS**

#### **Appropriations in Budgetary Funds (Repeat Comment)**

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. We noted during our audit that the Township had incurred expenditures in excess of the amount appropriated in the General Fund.

We recommend the modified accrual basis of accounting be considered when adopting the budget. The budget should be amended during the year to reflect expenditures expected to be made in excess of the original budget amounts. These amendments must be approved by the Township Board and documented in the board minutes. This will help prevent the Township from incurring expenditures in excess of appropriations.

By following the above recommendations, the Township will be in compliance with P.A. 621 of 1978, Section 18(1), as amended, when adopting future budgets.

## **OTHER MATTERS**

### **Financial Oversight**

The general limitations in any smaller organizations like the Charter Township of Larkin requires that Township Board members continue to remain involved in the financial affairs of the Township through oversight of operation, development of the annual budget, inquiries about variances between budgeted and actual amounts shown in the financial statements, and the independent review of critical functions. Based on inquiries, the Township performs these duties and our comment here is intended to emphasize the importance of the Township's oversight role.

### **Conclusion**

These conditions were considered in determining the nature, timing, and extent of the audit tests applied on our audit of the December 31, 2005, financial statements, and this report does not affect our report on those financial statements dated February 23, 2006. We have not considered internal control since the date of our report.

This report is intended for the information of the members of the Township Board and the State of Michigan, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

*Burnside & Lang, P.C.*

**BURNSIDE & LANG, P.C.**